BOARD	MTG DATE	ITEM NO.
PEHCCP	11/02/00	3a

STATE OF WISCONSIN
DEPARTMENT OF EMPLOYEE TRUST FUNDS
801 West Badger Road
Madison, WI 53702

CORRESPONDENCE MEMORANDUM

DATE: October 11, 2000

TO: Private Employer Health Care Coverage Board

FROM: Phil Borden, Director

SUBJECT: California Site Visit

Following is a summary of the major ideas and issues discussed on my recent visit to California to discuss the implementation of Wisconsin's Private Employer Health Care Coverage Program (PEHCCP). These discussions were with three organizations that have implemented and operated insurance purchasing pools similar to the PEHCCP. Although the insurance regulatory environment in California is different than Wisconsin, our intent was to gain a "best practices" insight by discussing the implementation and structure of two successful insurance purchasing programs, one of which was formed by state legislation similar to Wisconsin's program. This memo will summarize the major issues as discussed with:

California's Managed Risk Medical Insurance Board (MRMIB)
Pacific Business Group on Health (PBGH)
California Choice (Word & Brown)

Overall Appeal of Purchasing Pools

The PEHCCP has several things to offer. To employers, it offers employee choice within the pool and the ability of employees to select different insurance benefits and provider networks i.e. Health Maintenance Organizations (HMO), Point Of Service (POS), and Preferred Provider Organizations (PPO). To Insurers, the pool can provide growth within the small group market and retention of employees within the pool, as opposed to having whole groups jump ship to a different carrier every one or two years. The PEHCCP will provide a "simple" market for them: They do not have to perform eligibility, marketing, premium collection, or commission reconciliation. Also, at least within the pool, an insurer would have the possibility of retaining some employees that they might otherwise lose in the traditional market.

Following are some notes on what I learned with regard to:

Agents - The agent market must not be put at a disadvantage or they may place only high risk groups within the program (groups that cannot obtain adequate coverage elsewhere). MRMIB, in the wake of health care reform, attempted to cut out the agent from the process and market directly to employers. Eventually, with the failure of health care reform, they recognized that the agents were an important ingredient to their success and tried to offer minimal incentives (low commissions), which did not meet with a great deal of success. PBGH, which assumed

ownership of the program, still struggles with the perception of the program among the agent community. The PEHCCP program, however, specifically states that only licensed agents may sell policies under the program. Word & Brown has set up their delivery mechanism very similarly to how the PEHCCP will need to operate, marketing heavily to agents, providing referrals, and maintaining good carrier relations. Any business that comes to the program directly (without agent referral) is referred to an "Agent of Choice" program. This may be designated by a "first come, first served" mechanism through a call center, as MRMIB eventually did, or by geographic area (Word & Brown). PBGH and Word & Brown employ field representatives to train and work directly with agents.

Benefit Plans – The biggest challenge was to develop a "responsible" benefit package that did not rely too heavily on high deductibles and co-pays to keep premium costs low. Carriers should look as much alike as possible and differentiate on network and service. They designed the plan options for similar cost while providing a better risk mix to avoid a situation where PPO's were going to be selected against. Also, they were cognizant of potential tax incentives to employers to favor higher benefit packages (with high premiums) with lower deductibles and co-pays because a more expensive package can provide a higher tax write off.

Budget Issues – MRMIB never had any money appropriated by the California legislature, just authority to borrow needed funds. They arranged for a $5.5 million dollar loan over 2 years, to be repaid over 7 years. The borrowed funds were paid back through proceeds received through the program. To provide additional income, there were various fees charged within the programs (late fees, reinstatement fees, etc.) to help offset the program costs. The remainder of the loans was paid off by PBGH when they acquired the program. PBGH adds approximately 11.5% to the premium to cover their costs and the 8% agent commission. This covers the administrator's costs, PBGH's overhead, and generates additional revenue for reserves. Word & Brown said that this was "comparable" to their costs.

Insurance Carriers – It was suggested that we identify the largest carriers in order to get the program up and running while covering the largest geographic area possible. Concentrate on those carriers first and identify their underwriting criteria. There must be agreement by the carriers on the methodology used by the administrator in underwriting risk; therefore the plans must trust the administrator, something that becomes more difficult if we choose an administrator from outside the state.

Marketing – Spend as much as necessary to market to the target audience, including employers, agents, state government agencies, and legislators. Use all the resources available and educate, educate, educate. We definitely need to advise the agent market of what is going on with the program first, there should be no surprises. California obtained continuing education credits for informational seminars for agents. Also, we should seek to use free media wherever possible.

Provider Choice – The experience of the California programs has shown that an employee's choice in health plans is based more upon physician options than premiums. To that end, all of the California programs employed a "Reverse Directory", which allows a participant to find a physician and identify each of the various benefit plans that physician participates in.

Risk Adjustment Mechanism – This was developed by MRMIB in an effort to level the playing field in terms of risk and potential for adverse selection among the different plan options. The plans submit experience reports to the administrator annually. Those plans with the best overall experience pool additional monies, which is then transferred to the plans with the worst experience in the program. This then minimizes potential losses which may be due to adverse

selection against some plan options. MRMIB estimated that there is a maximum tolerance somewhere below 3% for risk adjustment in a voluntary system, meaning that the carriers were only willing to share up to 3% of their "excess" with other carriers in the pool.

Underwriting - Underwriting will present the greatest challenge. The California market has a +/- 10% underwriting band and so underwriting was not perceived to be a major issue by the health insurers because the swing is not that large. However, in the Wisconsin market the band is +/- 30% of the midpoint, which presents a greater swing. The recommendation of the organizations visited is to obtain, if possible, the underwriting criteria used by the health carriers, and identify what they will be willing to agree to in terms of standardization. The greatest thing a pool can offer employers is choice, but that also can be the most attractive thing to high risk groups. There is a need to mirror the market, and not provide a reason to agents to place high risk groups to the pool. The ideal is to have the carriers distinguish themselves through services.

Conclusion

The current rate environment bodes well for a purchasing pool of this type, but the Wisconsin rating regulations will make it tougher than it was in California, especially since the California legislation was passed in the wake of Clinton's Health Care Reform. The greatest obstacle is likely to be the centralization of one underwriter for all the health plans that participate, and their agreement on the criteria to be used.

In the current environment of double digit premium increases, and health plans having their clients shop the market every one or two years, the timing for the development of a purchasing pool is right. Insurers are interested in retaining their client base. Private employers want to see something new because they are not happy with the way things are currently. Also, once participating in the pool, it is more difficult to leave because the loss of choice may be seen by employees as a benefit take away, especially in a tight labor market.

Agents like the concept because a purchasing pool provides one stop shopping with multiple health care choices, so there is less time and dollars involved in finding the correct coverage for their clients. In addition, the idea of a standardized application and underwriting process is attractive because it simplifies the process.

The biggest overall challenge is to "do something different" in the market but continue to reinvent the program so that we keep ahead of the market. Competitors, even participating carriers, will mirror the program's successes. The greatest competitive advantage the PEHCCP can offer is health plan choice, but that also can be the most attractive thing to high risk groups. Therefore, the program needs to mirror the market at the same time that it is attempting to distinguish itself.